

Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 AGR-05 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03

H-02 PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 /085 R

DRAFTED BY ARA/ECP:RTAYLOR;PAM

APPROVED BY ARA:JGRUNWALD

ARA/CAR:DSTRASSER (DRAFT)

ARA/ECP:SROGERS

EB/IFD/OMA:BCROWE (DRAFT)

TREASURY:DWOLKOW (DRAFT)

EB/ORF/FFD:CCAVANAUGH (DRAFT)

AID/FFP:HFARNHAM (DRAFT)

USDA/ASCS:MSMITH (DRAFT)

USDA/OGSM:GTUSSEY (DRAFT)

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R 261258Z AUG 76

FM SECSTATE WASHDC

TO AMEMBASSY SANTO DOMINGO

C O N F I D E N T I A L STATE 212027

E.O. 11652: GDS

TAGS:EFIN, DR

SUBJECT: DOMINICAN REPUBLIC DEBT ARREARAGES

REF: (A) SANTO DOMINGO 3974; (B) SANTO DOMINGO A-49; (C)

STATE 206911; (D) SANTO DOMINGO 4078

1. WE UNDERSTAND AND ARE SYMPATHETIC TO THE CURRENT BALANCE
OF PAYMENTS PROBLEM FACING THE DOMINICAN REPUBLIC. THE FOL-
LOWING ANALYSIS REPRESENTS OUR VIEW OF WHY THE GODR HAS
CONSISTENTLY DELAYED ITS PAYMENTS OF PL-480 DEBT, AND WHY
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THIS PRACTICE IS NO LONGER IN THE GODR'S INTEREST.

2. GODR HAS REGULARLY MAINTAINED PL-480 DEBT ARREARAGES AT THE END OF EACH YEAR. IN 1975, THE TOTAL WAS ROUGHLY 4.2 MILLION DOLLARS, 1974--1.6 MILLION DOLLARS, 1973--3.0 MILLION DOLLARS, 1972--2.7 MILLION DOLLARS, 1971--2.5 MILLION DOLLARS AND 1970--1.5 MILLION DOLLARS. THESE YEAR-END ARREARAGES HAVE AVERAGED 2.5 MILLION DOLLARS OVER THIS PERIOD. BECAUSE THE INTEREST RATES ON PL-480 ARREARAGES ARE AT THE SAME CONCESSIONAL RATES (RANGING FROM .75 TO 3.0 PERCENT) AS THE ORIGINAL CREDITS, THE GODR, IN EFFECT, HAS BORROWED ROUGHLY 1.6 MILLION DOLLARS FROM THE USG AT VERY LOW INTEREST OVER THE LAST SIX YEARS SIMPLY BY MAINTAINING ITS POLICY OF DELAYING PL-480 PAYMENTS.

3. THIS POLICY, WHICH WAS APPARENTLY ONE OF THE DEVICES THE GODR REGULARLY USED TO "DRESS-UP" ITS YEAR-END BALANCE OF PAYMENTS FIGURES (AS MENTIONED IN REF B),WA' QUITE LOGICAL FROM THE POINT OF VIEW OF THE GODR. MOST INSTALLMENTS WERE IN ARREARS 6-10 MONTHS. THEY PROBABLY CONSIDERED THAT THE AMOUNTS INVOLVED WERE INSIGNIFICANT TO THE USG, BUT IN SOME YEARS, THESE DELAYED PAYMENTS REPRESENTED A SUBSTANTIAL PORTION OF THE GODR'S BALANCE OF PAYMENTS SURPLUSES. AND AT INTEREST RATES FROM .75 TO 3 PERCENT, THIS WAS THE GODR'S CHEAPEST SOURCE OF SHORT-TERM FUNDS. FYI: A GOVERNOR OF THE FEDERAL RESERVE HAS RECENTLY PROPOSED THAT A NAC WORKING GROUP CONSIDER THE POSSIBILITY OF CHARGING A PENALTY INTEREST RATE ON SUCH DEBT ARREARAGES. END FYI

4. IN 1975, THE GODR HAD A BALANCE OF PAYMENTS SURPLUS OF ABOUT 50 MILLION DOLLARS, AND THIS YEAR IT IS FACING A DEFICIT OF AT LEAST 85 MILLION DOLLARS. THE SIZE OF THESE SWINGS MEANS THAT THE DELAYED PL-480 PAYMENTS ARE NO LONGER A SIGNIFICANT ELEMENT IN THE GODR YEAR-END BALANCE OF PAYMENTS CALCULATIONS. (IN CONTRAST, IN 1973, THE 3.0 MILLION DOLLARS PL-480 ARREARAGE REPRESENTED ABOUT 50 PERCENT OF THE GODR'S BALANCE OF PAYMENTS SURPLUS.)

5. GIVEN THE UNUSUALLY HIGH BALANCE OF PAYMENTS DEFICIT PROJECTED FOR THIS YEAR, THE GODR'S DELAY IN MAKING TIMELY PL-480 DEBT PAYMENTS, IN EFFECT, BLOCKS ANY BOP ASSISTANCE

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SUCH AS CCC CREDITS, THE USG MIGHT PROVIDE.

6. AS WAS EXPLAINED IN BOTH REFERENCES A AND B, THE GODR HAS A WIDE RANGE OF OPTIONS AVAILABLE TO FINANCE ITS PROJECTED 1976 PAYMENTS DEFICIT. AMONG THESE ARE UNUSED LINES OF CREDIT RANGING BETWEEN 80-90 MILLION DOLLARS WITH US AND CANADIAN BANKS, POSSIBLE ACCESS TO THE IMF'S COMPENSATORY FINANCING FACILITY FOR UP TO 24.7 MILLION DOLLARS AND

A DRAW-DOWN IN THEIR RESERVE POSITION.

7. THE DR'S DEBT SERVICE PAYMENTS AS A PERCENT OF EXPORTS OF GOODS AND SERVICES HAVE BEEN AMONG THE LOWEST OF THE WORLD'S DEVELOPING COUNTRIES IN RECENT YEARS AND HAVE STEADILY DECLINED FROM 7.2 PERCENT IN 1971 TO 3.5 PERCENT IN 1975. THESE PAYMENTS AS A PERCENT OF GROSS DOMESTIC PRODUCT HAVE AVERAGED 1.13 PERCENT OVER THIS TIME PERIOD. ALTHOUGH THE COUNTRY'S NET RESERVE POSITION IS EXTREMELY LOW AT PRESENT, THIS FIGURE IS VERY VOLATILE AND CHANGES DEPENDING ON SHORT-TERM CAPITAL FLOWS. AT THE END OF JUNE 1976, ACCORDING TO THE IMF, THE GODR'S GROSS RESERVES WERE 60.9 MILLION DOLLARS, OF WHICH 50.4 MILLION DOLLARS WAS FOREIGN EXCHANGE, 3.4 MILLION DOLLARS WAS GOLD, AND 1.7 MILLION DOLLARS WAS SDR'S. THIS REPRESENTS A DECLINE OF 48 PERCENT FROM THE 116.1 MILLION DOLLARS IN GROSS RESERVES REGISTERED AT THE END OF 1975. WE HAVE NO SUBSEQUENT INFORMATION ON THE GODR'S GROSS RESERVE POSITION EXCEPT TO NOTE THAT GROSS RESERVES HAVE APPARENTLY RISEN TO ABOUT 70 MILLION (REF C) IN THE LAST MONTH AND A HALF.

8. WE WOULD APPRECIATE ANY COMMENTS YOU MAY HAVE ON THIS ANALYSIS AND SUGGEST THAT YOU CONTINUE TO IMPRESS UPON THE GODR THE FACT THAT ITS FAILURE TO MAKE PAYMENTS WHEN DUE ON ITS PL-480 INDEBTEDNESS JEOPARDIZES OUR CONSIDERATION OF, AND ITS ACCESS TO, USG ASSISTANCE. KISSINGER

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS DEFICITS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE212027
Document Source: CORE
Document Unique ID: 00
Drafter: RTAYLOR;PAM
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760326-0131
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760816/aaaaankj.tel
Line Count: 141
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 SANTO DOMINGO 3974, 76 SANTO DOMINGO A-49
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUL 2004 by ElyME>; APPROVED <02 NOV 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DOMINICADREPUBLIC DEBT ARREARAGES
TAGS: EFIN, DR, US
To: SANTO DOMINGO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006